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SUBJECT: CHAD: DOES THE GOVERNMENT WANT THE WORLD BANK OUT
OF OIL REVENUE MANAGEMENT?

REF: NDJAMENA 882

SUMMARY:

1. (SBU) Tough talk in the Multi-Donor Mission's oil revenue management working group seems to indicate a Government of Chad desire to cut the World Bank out of the oil sector all together. If the GOC shows continued inflexibility over the World Bank's status as a senior creditor, it could be an indicator that Chad does not, in fact, want to reach a global agreement with the Bank on oil revenue management. CitiBank's continuing as the holder of Chad's oil revenue accounts also appears to be in jeopardy. END SUMMARY

IS THE PROBLEM CITIBANK ...

2. (SBU) Discussion on June 27 in the oil revenue management working group of the World Bank/IMF-led Multi-Donor Mission to Chad centered on the issue of Chad's off-shore accounts at CitiBank in London. The CitiBank deposit facility was established as a centerpiece of Chad's unique oil revenue management scheme, and includes functions of escrow, transit, and guarantee accounts. Most descriptions of the program focus on the sequestering of royalty and dividend receipts due to Chad in the account for transparent accounting and internationally supervised distribution of the funds to priority development spending, to the production region in Chad, and to the Government. The account has another key purpose, however: that of ensuring that the ABN Amro Bank and World Bank loans financing the oil exploitation project are properly serviced, without risking a change in Government of Chad (GOC) willingness to pay.

3. (SBU) Talks earlier in the Multi-Donor Mission had called

for inclusion in the oil revenue management working group's terms of reference a review of procedures for the transfer of funds from the escrow account to the GOC's Treasury account. The stated goal was to make recommendations on accelerating transfer procedures, as well as to evaluate the adequacy of CitiBank as the financial intermediary. A break-out group on June 26 defined potential changes to be considered, ranging from the benign (changing the day of the month for transfers) to the draconian. Among the latter were demands to modify CitiBank's account reporting requirements and constraints on fund transfer request confirmation procedures (presumably governed by UK banking regulation) to dumping CitiBank altogether in favor of a French institution.

OR THE WORLD BANK?

14. (SBU) Exchanges in the June 27 full working group grew increasingly heated as the proposals for modifying banking procedures became more extreme. The World Bank's legal counsel let pass those draft recommendations that would be constrained by banking regulatory authorities, on deposit protection or reporting requirement grounds. She later told POL/ECON officer that the answer to such suggestions in London would likely be a simple "No", and so not worth taking up time in the initial phases of the search for a global agreement on oil revenue management. As the subject shifted to whether or not to keep the accounts at CitiBank at all, the IMF Representative cautioned the GOC technicians to carefully weigh the costs of shifting out of a bank in the UK to one in France, simply to get bank statements in French. He suggested that the fees alone involved in closing the

original account and opening a new custom-designed one were large enough that Chad could obtain training in "Anglo-Saxon" accounting and English Language lessons for several Chadian account managers for less.

15. (SBU) Finally, the discussion came to the subject of the CitiBank accounts' escrow and sequestration functions, and the GOC's central problems with the fund transfer mechanisms became clearer. Officials from the Ministry of Finance stated that there could be no question of the World Bank retaining unrestricted rights to freeze the accounts, as had happened in the recent conflict over the GOC's modification of the oil revenue management program's legal status. Less explicitly stated was GOC unhappiness with one of the key functions of the sequestration account: that of ensuring unfettered servicing of the World Bank and ABN Amro loans financing the oil exploitation project. The GOC team in the working group proposed that the agreement establishing the sequestration account should be reviewed, and specific modifications made to "reinforce Chad's role in the mechanism".

AUTOMATIC LOAN SERVICING
NON-NEGOTIABLE

16. (SBU) World Bank team members told POL/ECON officer that, of all the changes to Chad's oil revenue management program that the Banks might accept in the next two-three months of discussions, allowing for GOC control over the servicing of the Bank's loans to the oil project would not be considered. Team members suggested that GOC insistence on this later in the negotiations would be one potential indicator that Chad was more interested in scuppering a potential deal than in setting new terms for normal relations with the Bank.

17. (SBU) The team connected this issue to that of Chad's establishing a national oil trading company that would take over marketing of the share of production that generates Chad's royalties. The team's oil sector specialist explained that, under the current terms of Chad's concession contract

with the oil producer Consortium, Chad's royalties are calculated as 12.5 percent of the average price/barrel from the three producing fields covered under the World Bank's arrangements over a given quarter, multiplied by the barrels produced in that quarter. Chad now seeks to obtain its royalties "in kind" -- by marketing itself 12.5 percent of the production from the three fields in a given quarter, and seeking to maximize revenues by obtaining a better sale price on the international market than the Consortium manages to get. Taking Chad's revenues as an in-kind share of production puts the GOC's hand into the same till from which the World Bank draws its loan servicing payments, whereas current procedures allows the Bank to be paid before funds are drawn off to the GOC's accounts. The Bank team suggested this would be something that World Bank senior management would not allow.

PERHAPS THEY DO NOT
WANT A DEAL ...

18. (SBU) World Bank team members wondered if the GOC's enthusiasm for dismantling the receipts flow and division procedures of the oil revenue management program revealed an end-game strategy that aimed to in fact dismantle the World Bank's engagement in the oil sector in Chad. If so, the results of this negotiating strategy risked farther reaching consequences -- that of not closing a global agreement on

Bank operations in Chad.
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